Copy No. 4

REF
LIST
0973
Z10925
No. 4579/48

~~SECRET~~
US Officials Only

SOVIET ECONOMIC INTERESTS IN MANCHURIA

DEPARTMENT OF STATE
REFERENCE DIVISION
FILE COPY
PLEASE RETURN
REF

OIR Report No. 4579

January 27, 1948

3375

DEPARTMENT OF STATE

Division of Research for Europe
OFFICE OF INTELLIGENCE RESEARCH

~~SECRET~~
US Officials Only

DECLASSIFIED
Authority NND760175
By C GD NARS Date DEC 29 1976

TABLE OF CONTENTS

		Page
	Summary and Conclusion	ii
I.	Introduction	1
II.	Communications	3
III.	Industry	4
IV.	Agriculture	5
V.	Trade	7
VI.	Developmental Possibilities	8
VII.	Probable Soviet Course of Action	12

LIST OF TABLES

1.	Manchurian Output of Selected Industrial Products, 1943 and 1947	5
2.	Manchurian Exports of Vegetable Oils and Oilseeds . . .	7
3.	Economic Interrelationship Between Eastern Siberia and Manchuria	9

When this study outlives its usefulness to you, please return it to:

Department of State
Office of Intelligence Research (OIR)
626 State Annex #1
Washington, D.C.

SUMMARY AND CONCLUSION

The Soviet Union's interest in Manchuria is both economic and strategic. Because of Manchuria's geographic location, it can always become a potential threat to Eastern Siberia. Under Soviet domination, it could be used as a stepping stone for expansion into China proper and Southeast Asia. At present, because of the low level of its economy, Manchuria's chief benefit to the USSR is as a supplier of agricultural products to Eastern Siberia. If the USSR could furnish $1 billion of capital investments to build up Manchurian industry, the two countries would become much more nearly complementary economically.

Under an agreement with the Nanking government of China, the USSR exercises joint ownership over the Chinese Changchun Railway and possesses the warm water ports of Dairen and Port Arthur. Furthermore, the Chinese Communists now control more than 90 percent of Manchuria. Consequently, the Soviet Government probably considers this area to be an adequate, though temporary, bulwark against American influence in China.

It is doubtful that the USSR will attempt military invasion of Manchuria at this time. Eastern Siberia at present is not an adequate base for a modern army equipped for a large-scale military operation. It is also doubtful that the Soviet Government will risk a big investment in Manchuria as long as the USSR has a scarcity of capital equipment at home and political conditions in the Far East remain so uncertain. In the long run, however, it may be in the Soviet interest to develop Manchuria to the point where it will really complement the Soviet economy.

SOVIET ECONOMIC INTERESTS IN MANCHURIA

I. INTRODUCTION

At present, the Chinese Communists are reported to control more than 90 percent of Manchuria, and they may soon dominate all of it. This area, protruding up into the most industrialized and thickly populated section of Eastern Siberia, holds both economic and strategic interest for the Soviet Union.

The USSR's economic interest in Manchuria stems primarily (1) from the existence of the Chinese Changchun Railway, which the USSR owns jointly with the Nanking government of China and (2) from the fact that the economy of Manchuria is to some extent complementary to the economy of that part of the USSR east of Lake Baikal, including the Soviet Far East. (For purposes of simplification, this entire area is referred to in this paper as Eastern Siberia.) The complementarity of these economies is at present limited by the low level of economic development of Manchuria; potentially, however, it is great.

Soviet strategic interests stem from (1) the fact that Manchuria, because of its geographic location, can be used as a base to threaten Eastern Siberia and (2) the possibility that under Soviet domination, it could become a stepping stone for expansion into China proper and Southeast Asia. Although the coastal strip of Soviet territory

between Khabarovsk and Vladivostok is connected with the rest of Eastern Siberia by an arm of the Trans-Siberian Railroad, the location of Manchuria nevertheless tends to isolate it and increase its military and economic vulnerability. In addition, Manchuria has warm water ports, which the Russians have always wanted. These ports--Dairen and Port Arthur--are useful for trade purposes, but the latter at least is also an excellent naval roadstead. At one time they were in Russian possession, having been leased from the Chinese, but they were lost to Japan in the war of 1905. Now the Soviet Union again holds them by agreement with the Chinese Government, but they are hardly secure in a military sense without control of the Manchurian hinterland and possibly of Korea as well.

The Soviet Union's strategic interest in Manchuria is of long standing. Today, when relations between the USSR and the United States are badly strained and the US is pursuing an active policy in China, Korea, and Japan, this interest is considerably heightened.

Economically, two alternatives are open to the Soviet Union while Manchuria remains subject to its influence: (1) it can keep Manchuria at its present low economic level, utilizing its exportable foodstuffs, vegetable oils, and manpower, all of which are deficient in Eastern Siberia; or (2) it can expend a relatively large amount of capital to build up the Manchurian economy to a point where its industry and natural resources would represent a major economic asset to the USSR.

II. COMMUNICATIONS

Even at its present level of development, Manchuria is useful to the USSR. The importance of the Chinese Changchun Railway, which includes all railroads that the Russians built or participated in building in this area prior to 1905, has been mentioned. The largest part of this line is the Chinese Eastern Railway, which connects Vladivostok directly with the main line of the Trans-Siberian railroad and saves 600 miles on trips to Vladivostok from other parts of the USSR. In addition, the railroad system of Manchuria, with Harbin as the hub, was built up by the Japanese. At present there are about 7,000 miles of railroads in Manchuria, a rail network that compares favorably with that of the USSR itself. Soviet forces seized a considerable quantity of rolling stock and equipment during their occupation of the area; much of this has been reported piled up along railroad sidings in the Soviet Far East and apparently has not been used. The Manchurian railroads as a whole, are however in fairly good condition. They were damaged far less than the rest of the economy during the Soviet invasion. And repair facilities and coal mines are sufficient at present to maintain and operate them. 1/

Under the Chinese Changchun Railway agreement of 1945, the USSR and the Nanking government have joint ownership and operation of the main trunk line of the Chinese Eastern and the South Manchuria Railway

---

DRE/EER, "The Turbulent History of the Chinese Eastern Railroad", unpublished draft, July 1945, Appendix A, UNCLASSIFIED;
Pauley, Edwin L. Report on Japanese Assets in Manchuria to the President of the United States, July 1946, RESTRICTED.

connecting with Dairen and Port Arthur. For all practical purposes this arrangement gives the USSR effective control of the entire Manchurian rail network, as it involves control of the main hub at Harbin. This is important to the USSR because it assures a means of shipping Manchurian foodstuffs into Eastern Siberia. Actually, at present the management of the railraods is largely in the hands of Chinese Communists rather than of Soviet officials.

Additional vaguely worded provisions of the agreement, not yet officially interpreted, may give the USSR grounds for claiming control also over Manchurian electric power stations, factories, mines, and machine shops. The agreement states that the Russians are to control such of these properties as are connected with operation of the railroads; broadly interpreted, this could include the bulk of these enterprises in Manchuria. 1/ But while the Changchun railway agreement by itself thus insures some degree of Soviet economic control of Manchuria, establishment of an outright Communist regime in Manchuria would greatly enhance the USSR's domination.

III. INDUSTRY

At the present time, Manchuria is able to furnish no industrial equipment and hardly any manufactured goods to the Soviet Union. The Japanese, with an investment in Manchuria estimated at $2.5 billion, built up coal, steel, textile, chemical, and shale oil industries in the area. During and immediately after the Soviet invasion, a considerable part of this plant was removed, destroyed, or damaged,

1/ OIR-4519, The Chinese Changchun Railway Agreement as a Basis for Soviet Economic Expansion in Manchuria, October 1, 1947, RESTRICTED.

Total damage to the whole Manchurian economy resulting from the Red Army's invasion was placed by the Pauley report at $2 billion, of which $900 million was borne directly by industry; actual industrial removals are believed to have amounted to about $89 million. 1/ Indirect damage from exposure, undermaintenance, and idleness has been far more. The decline in Manchurian production is shown in the following table.

Table 1. MANCHURIAN OUTPUT OF SELECTED INDUSTRIAL PRODUCTS, 1943 AND 1947

(In thousands of metric tons)

Product	1943	1947
Iron ore	5,400	200
Pig iron	1,700	100
Coal	25,300	3,500
Cement	1,500	100
Chemical fertilizer	92	3
Aluminum	9	0
Salt	1,580	not known
Petroleum products	185	0

Consumers' goods industries, such as textiles and food, suffered perhaps as heavily.

IV. AGRICULTURE

In agriculture, Manchuria has more to offer to the USSR immediately. Eastern Siberia is short of all goods except fish, of which there is an export surplus. Grain production of Eastern Siberia in 1944 was about 1.6 million metric tons, or only about 80 to 90 percent

---

1/ Pauley, Report on Japanese Assets, July 1946, RESTRICTED.

of minimum requirements. In addition, there are shortages of meat, sugar, and vegetable oils. Half of the civilian population is engaged in agriculture, but because of climatic conditions and unfavorable terrain farming is highly localized. The area cannot, for example, produce enough fodder to maintain sizable livestock herds. In spite of vigorous efforts toward self-sufficiency in food, it is doubtful if Eastern Siberia can by itself support the population that would be needed to develop its resources to the fullest extent. 1/

Manchuria, on the other hand, is currently producing a grain surplus of about 1.1 million tons, consisting of millet, corn, and sorghum, and a soybean surplus of about 700,000 tons. It also produces by-products such as oil and oil cake, the latter used as fodder. Under normal conditions its exportable surpluses of soybeans should amount to 1 to 1.5 million tons. In 1939, out of total Manchurian exports to Japan of $190 million, soybeans and their products amounted to 43 percent. 2/ Manchurian prewar exports of vegetable oils and oilseeds were also substantial, as shown by the following table.

1/ JANIS No. 73, Southeastern Siberia, February 1945, Ch. 1, CONFIDENTIAL.

2/ Asia Statistics Company, The Orient Yearbook, Tokyo, 1942; Manchuokuo Yearbook Company, The Manchuokuo Yearbook, Hsinking, 1942.

Table 2. MANCHURIAN EXPORTS OF VEGETABLE OILS AND OILSEEDS 1/

(In metric tons)

Item	1937	1938	1939
Bean oil	70,000	57,000	73,000
Perilla oil	19,000	13,000	19,000
Castor seeds	27,000	16,000	8,000
Cotton seeds	13,000	16,000	6,000
Hemp seeds	24,000	30,000	51,000
Perilla seeds	64,000	49,000	60,000
Sesame	8,000	9,000	20,000
Groundnuts	93,000	81,000	28,000
Total	291,000	271,000	265,000

1/ Source: Ibid.

V. TRADE

Most of Manchuria's food surpluses are now finding their way into the USSR, probably under a trade agreement reported to have been made between the USSR and the Chinese Communist forces in Manchuria in January 1947. 1/ Scattered intelligence reports have differed about the actual volume of this trade. One recent report declared that it amounts to 180,000 tons a month, which is a rate of more than 2 million tons a year. 2/ This estimate seems high. If, for the sake of illustration, exports were valued at $100 per ton ($25 a ton less than the current price of soybeans), these exports would be worth the impressive sum of $200 million a year. Moreover, it is doubtful that the railroads

1/ OIR-4348, Sino-Soviet Trade in 1946, April 11, 1947, CONFIDENTIAL.

2/ R-18, Changchun, October 24, 1947, CONFIDENTIAL.

are capable of transporting so large a volume to the USSR. A figure half the reported size seems much more plausible; even this tonnage, however, would be high--about twice that of US commercial exports to the USSR in 1946. In any event, there is a substantial degree of trade activity between the two areas. In return for Manchurian foods, the USSR is reported to have sold some captured Japanese armaments 1/ and exported paper, cotton, cigarettes, matches, and petroleum products to Manchuria.

Because of the stagnation of Manchurian mines and factories, there is at present a surplus of industrial labor and even of skilled technicians in the area. Although Manchuria would have a manpower deficit in the event of an industrial revival, at present these workers could well be used by man-poor Eastern Siberia. Even before the war many Chinese worked in the Soviet Maritime Province all the way up to Nikolaevsk.

VI. DEVELOPMENTAL POSSIBILITIES

Despite these economic benefits which Eastern Siberia may get from Manchuria at its present low economic level, the Manchurian economy will never be fully complementary to that of the USSR until Manchurian industry and mining are revived. (See Table 3, Economic Interrelationship Between Eastern Siberia and Manchuria.)

1/ Ibid.

Table 3. ECONOMIC INTERRELATIONSHIP BETWEEN EASTERN SIBERIA AND MANCHURIA

Commodities in short supply in Eastern Siberia and at present surplus in Manchuria -

Grain
Fats and Oils
Fodder
Salt

Commodities which are surplus in Manchuria and which the USSR can re-export -

Furs
Timber
Coal

Commodities which the USSR can furnish Manchuria -

Armaments
Paper
Cotton
Cigarettes
Matches
Petroleum products
Industrial equipment (potentially)

Industrial Materials which Manchuria could export if its potential were developed -

Coal
Timber
Molybdenum
Vanadium
Copper
Magnesium
Iron ore

Investment of $1 billion, at least, would probably be required to bring Manchuria back to the level at which it stood in 1943. Much of the equipment that would be needed is in very short supply in the USSR; generating equipment, mining machinery, agricultural machinery, railroad rolling stock, and pipes and tubing, as well as some skilled technical personnel. Such a project would be difficult to complete in much less than ten years. Ironically, a good deal of the need for rehabilitation was caused by the Russians themselves during their occupation of Manchuria.

It is true that certain key items in the Manchurian economy could be selected for development independently of the economy as a whole. For example, iron ore production might be expanded in order to supply Eastern Siberian metallurgical enterprises. The iron ore of Manchuria has a low iron content, but even so it might be cheaper to use it than to transport higher quality ore from Western Siberia. Manchurian production of vanadium and magnesite, of which there are large known quantities, could also be increased; the same is true of molybdenum, which is present in smaller amounts, and possibly of uranium, deposits of which have been reported. Tungsten is also present. But even these developments would compete in needed equipment not only with the internal requirements of the USSR but also with Soviet aid to Eastern European countries, where it is needed to build up their backward economies and parallel ERP aid to Western Europe.

Manchuria's resources are also important to the USSR from the strategic point of view. These resources potentially could play an important role in the creation of a strong anti-Soviet China. Conversely, Soviet control of these resources might provide a means of putting pressure on China for political ends. China currently has need for many things Manchuria could supply, chiefly food and, to a lesser extent, manufactured goods such as agricultural implements.

Use of Manchurian resources and industry by the USSR as a lever against Japan is also a possibility that should not be overlooked. Their control would permit future large-scale Soviet trade with Japan, and possibly, via trade, provide a means of drawing Japan into the Soviet orbit. In 1939, Manchurian exports to Japan totaled $190 million, which amounted to 21 percent of all Japanese imports that year. 1/ Japan will certainly again be in the market for foreign goods within a few years, and the USSR has already exhibited interest in trade with Japan. When American forces withdraw, the lure of Manchurian goods at low prices might have considerable influence with the Japanese. Conversely, a Soviet threat of withholding these goods could be used as a means of pressure on Japan.

There is, too, a positive military benefit to the USSR in dominating Manchurian resources and industry. At present Eastern Siberia is probably too deficient in industrial products to support a large wartime army geared to a major military operation. 2/

1/ Manchuokuo Yearbook, 1942.
2/ JANIS No. 73, Southeastern Siberia, ch. 1, CONFIDENTIAL.

With an increased Manchurian industrial output to depend on, however, the USSR could more easily maintain in that area a large army equipped for almost any eventuality.

VII. PROBABLE SOVIET COURSE OF ACTION

Given these interests in Manchuria, what is the Soviet Union going to do? The immediate interest of the USSR seems to be security. One reason for its destruction of Manchurian industry may have been the fear that Manchuria would be dominated by an "unfriendly" power, i.e., China or the United States. At present the Chinese Communists, with their control of almost the whole of Manchuria, are probably looked upon as an adequate buffer between the USSR and the US influence in the rest of China. It is, however, unlikely that the Soviet Union will at present make the large capital investment needed to build up the Manchurian economy. One reason, as has been mentioned, is the scarcity of the needed items within the USSR. Even if these could be spared, in view of the politically unstable conditions in the Far East there would always be the risk that the Soviet investment might be lost unless it were safeguarded by outright military domination.

It is also unlikely that the USSR will want to attempt military control of Manchuria at this time. To do so would create a serious danger of war. Even if the USSR as a whole could now withstand another war, Eastern Siberia, as has been pointed out, is not itself an adequate base for a large-scale military operation. In addition,

military intervention at this time might deal a harmful blow to the prestige of the Chinese Communists and thus run counter to longer-range Soviet aspirations in Eastern Asia.

With the Manchurian economy at its present low level, Communist domination gives the USSR practically all the benefits it is possible to obtain. In the longer run, however, it may well be in the Soviet interest to develop Manchuria to a point where it can really complement the Soviet economy.